

Message Text

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PAGE 01 MOSCOW 08718 231513Z

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SUBJ: INVESTMENT INFORMATION FOR FY 1974 FACT BOOK

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1. EMBASSY HAS NOT MAJOR DIFFICULTY WITH DRAFT SUBMITTED
REFTEL A, BUT WOULD SUGGEST SOME MODIFICATIONS AS REFLECTED
IN FOLLOWING ALTERNATE DRAFT.

2. BEGIN TEXT: FOREIGN INVESTMENT, IN THE USUAL SENSE OF
THE WORD, IS NON-EXISTENT IN THE USSR DUE TO THE TOTAL
GOVERNMENTAL CONTROL OVER THE ECONOMY. ALL FORMS OF
BUSINESSES, PLANTS, SHOPS, AND SERVICES ARE UNDER THE
PURVIEW OF A MILITARY WHICH MAKES ALL MAJOR OPERATIONAL
DECISIONS; LITTLE AUTHORITY IS DELEGATED TO THE MANAGER.
MOST CONTACTS BY FOREIGN BUSINESSMEN, THEREFORE, ARE WITH
THE RESPONSIBLE MINISTRY RATHER THAN WITH INDIVIDUAL FIRMS
OR SERVICE ORGANIZATIONS DIRECTLY. HOWEVER, WITHIN THIS
FRAMEWORK, OFFICIAL SOVIET POLICY ENCOURAGES, AND INDEED
ACTIVELY SEEKS, SUCH SPECIAL TYPES OF COMMERCIAL
ARRANGEMENTS AS JOINT DEVELOPMENT AND PRODUCTION
SHARING PROJECTS. THE USSR IS PARTICULARLY INTERESTED
IN ACQUIRING LARGE INDUSTRIAL PLANTS AND PROCESSES
EMPLOYING ADVANCED FORMS OF TECHNOLOGY AND PARTICIPATING
IN RESOURCE DEVELOPMENT (INCLUDING OIL, GAS, MINING, AND
FORESTRY), BUT BANKING AND TOURISM ARE ALSO AREAS FOR
INVOLVEMENT. AT PRESENT, THOUGH, NO FOREIGN EQUITY OR
MANAGEMENT PARTICIPATION IS ALLOWED.

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PAGE 02 MOSCOW 08718 231513Z

3. INCREASINGLY, THE USSR HAS INDICATED A PREFERENCE FOR

PRODUCTION SHARING RATHER THAN THE OUTRIGHT PURCHASE OF A "TURNKEY" PLANT. IN THIS WAY, THE PROJECT IS ESSENTIALLY SELF-FINANCING. THE PARTICIPATING FOREIGN FIRM OR CONSORTIUM PROVIDES SPECIALIZED MACHINERY, EQUIPMENT, AND EXPERTISE, WHILE THE SOVIET CONTRIBUTION INCLUDES LABOR AND LOCAL PROCUREMENT OF RAW MATERIALS AND INTERMEDIATE INPUTS. ESPECIALLY IN LARGE-SCALE PROJECTS, SUCH AS THE FIAT TOL'YATTI AUTO PLANT, THE FOREIGN PARTICIPANTS MAY ALSO SUPPLY SOME SKILLED MANPOWER AND MANAGEMENT LEVEL PERSONNEL TO TRAIN THE SOVIET EMPLOYEES WHO WILL OPERATE THE BUSINESS AND TO ENSURE QUALITY CONTROL. THIS BECOMES AN ABSOLUTE NECESSITY IF THE FOREIGN PARTICIPANTS ARE TO RECEIVE PART OF THE PLANT'S OUTPUT OR IF THE OUTPUT IS TO BE MARKETING IN THIRD COUNTRIES. THE SOVIETS HAVE INSISTED ON MAINTAINING BOTH OWNERSHIP AND MANAGEMENT IN ALL SUCH PROJECTS.

4. CURRENTLY, US FIRMS ARE ENGAGED PRIMARILY IN THE SALE OF MACHINERY AND EQUIPMENT FOR A VARIETY OF PROJECTS IN THE USSR, AND ARE NOT YET PARTICIPATING IN ANY JOINT DEVELOPMENT OR PRODUCTION SHARING PROJECTS. SEVERAL SUCH ARRANGEMENTS HAVE, HOWEVER, BEEN PROPOSED AND ARE IN VARIOUS STAGES OF NEGOTIATION. THE MOST ADVANCED OF THESE IS FOR THE CONSTRUCTION IN THE USSR OF CHEMICAL FERTILIZER PLANTS. (OTHERS INCLUDE THE DEVELOPMENT OF SUCH NATURAL RESOURCES AS NATURAL GAS, MINERALS, AND TIMBER.) END TEXT.

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